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To: Mayors  
Boards of Selectmen  
Town and City Managers  
Town and City Chief Financial Officers

From: Tom Dehner, Medicaid Director 

Date: April 2, 2008

Re: Fiscal impact of new federal rule on Municipal Medicaid programs

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This memo is to inform you that, as a result of an anticipated change in federal Medicaid regulations, Local Educational Authorities (LEAs), including cities and towns, regional schools and charter schools, will no longer be reimbursed Federal Financial Participation (partial federal reimbursement) for Medicaid administrative activities performed by school employees, school contractors or anyone under the control of a public or private educational institution. Currently, partial federal reimbursement for such activities is available to LEAs through the Administrative Activity Claiming (AAC) portion of the Municipal Medicaid program. The effective date for this federal rule (CMS-2287-F), which was promulgated on December 28, 2007, is described in more detail below. LEAs will be able to continue to receive partial federal reimbursement for direct services through the Direct Services Claiming (DSC) portion of the Municipal Medicaid program.

Effective Date of New Rule

The Centers for Medicare and Medicaid Services' (CMS) final rule is currently subject to a Congressional moratorium prohibiting its implementation. The moratorium is due to expire on June 30, 2008 absent further Congressional action. Once the moratorium has expired, the Office of Medicaid expects CMS to implement the rule. Federal reimbursement will not be available for administrative activities performed on or after the date of implementation.

Impact of New Rule on the Commonwealth

Over 280 LEAs across the Commonwealth currently participate in the AAC portion of the Municipal Medicaid program. A chart listing the current federal reimbursement levels for LEAs through the AAC portion of the Municipal Medicaid program is attached.

The Patrick administration is working as part of a national effort to delay or reverse this new rule. We have submitted comments to CMS expressing our concerns about the rule and we are working with our Congressional delegation and with the National Association of State Medicaid Directors on possible Congressional action to stop this rule from going into effect.

Despite the potential for Congress to extend the current moratorium, the Commonwealth and the LEAs that participate in the Municipal Medicaid program must be prepared to comply with this rule. The Office of Medicaid will be working directly with these LEAs to ensure compliance with the regulation. However, given the potential revenue impact to cities and towns, it is important that municipal financial authorities be made aware of this new rule.

#### Claiming for Certain Reimbursement Activities

When the final rule is implemented, Municipal Medicaid providers will no longer be allowed to seek Federal reimbursement for transportation services through the ACC program. However, while the final rule eliminates Federal reimbursement for most activities currently reimbursed under the AAC program, it does allow state Medicaid programs to seek reimbursement for certain transportation activities provided by Local Education Authorities (LEA). Federal reimbursement will no longer be available for transportation to and from a school for school-aged children, but will be available for transportation for non-school-aged children and for school-aged children between school or home and a non-school-based Direct Service provider that bills under the Medicaid program. The Office of Medicaid will be working with CMS to ensure that Municipal Medicaid providers will be able to identify those transportation services that are reimbursable under the final rule in the future.

If you have any questions or need additional information, please contact Christy Bonstelle, Director of School-Based and Cross Agency Programs at 617-573-1770.